



J. TYLER McCaULEY  
AUDITOR-CONTROLLER

**COUNTY OF LOS ANGELES  
DEPARTMENT OF AUDITOR-CONTROLLER**

KENNETH HAHN HALL OF ADMINISTRATION  
500 WEST TEMPLE STREET, ROOM 525  
LOS ANGELES, CALIFORNIA 90012-2766  
PHONE: (213) 974-8301 FAX: (213) 626-5427

February 1, 2005

TO: Supervisor Gloria Molina, Chair  
Supervisor Yvonne B. Burke  
Supervisor Zev Yaroslavsky  
Supervisor Don Knabe  
Supervisor Michael D. Antonovich

FROM: J. Tyler McCauley   
Auditor-Controller

SUBJECT: **PROPOSED FIRE DISTRICT CONTRACT WITH CITY OF LA HABRA  
FEBRUARY 8, 2005 BOARD AGENDA**

At the request of Supervisor Molina's office, we have reviewed the cost of the proposed contract between the County's Consolidated Fire Protection District (District or Fire) and the City of La Habra in Orange County. Under the contract, the District would assume responsibility for fire protection, hazardous materials and emergency medical services in La Habra. La Habra would pay the District approximately \$5.5 million a year for these services and pay \$2 million for half the cost of building a new fire station.

The purpose of our review was to evaluate the District's analysis comparing the cost of contracting with La Habra to the cost of the District building and operating a new fire station in the adjacent City of La Mirada, which is in Los Angeles County. The District maintains that the La Habra contract will allow them to reallocate District resources to improve response times and service levels to justify the increased cost as explained below.

**Summary of Review**

The District's analysis indicates that, because the annual payment from La Habra is less than the total cost of all the District resources to be provided in La Habra (approximately \$6.9 million a year), the contract with La Habra results in an incremental cost to the District of approximately \$1.45 million a year. The District's analysis also indicates that the cost of operating a new station in La Mirada would be approximately \$2.8 million a year. Therefore, the District's analysis indicates that the contract with La Habra results in a lower cost than building and operating a station in La Mirada. In addition, District

*"To Enrich Lives Through Effective and Caring Service"*

management believes that contracting with La Habra will result in improved service levels and response times in both La Habra and existing District areas.

Our review indicates that the District's analysis is based on a number of significant assumptions regarding resource requirements, service levels, District priorities and other factors. While it is very difficult to evaluate the validity of some of the District's major assumptions, our review indicates that, subject to those assumptions, the District's analysis showing that contracting with La Habra results in lower cost than the District building and operating a station in La Mirada is reasonable.

The following are the details of the costs and assumptions used in the District's analysis.

### **La Habra Contract**

Under the La Habra contract, the District will take over operation of the City's three existing fire stations. A fourth station will be built, with the City and Fire District sharing the construction cost.

#### ***Station 1***

This station will have a total cost of approximately \$2.3 million. The City will pay approximately \$1.66 million of the annual operating cost. The District will provide one firefighter position. However, the District has indicated that, based on the resources that will be available under the La Habra contract, they will be able to fill the position with existing staff by eliminating an Emergency Support Team in Whittier. District management indicated that services to Whittier will be maintained at the current levels using the realigned resources under the La Habra contract. As a result, the District's analysis indicates that they will fund 32% of the Paramedic Squad at Station 1, at an incremental cost to the District of approximately \$297,000 a year.

Based on this arrangement, the City will pay approximately \$1.66 million of the total cost of Station 1 and the District will pay \$640,000. The cost sharing for this station is a negotiated amount, which is intended to reflect the benefit to be derived from the Station, both in the amount of the service projected to be provided in La Habra and existing District areas, and in reduced emergency response times in the District areas.

#### ***Station 2***

This station will have a 3-person Paramedic Assessment Engine at a cost of \$1.46 million a year. The entire cost of this station will be paid by La Habra.

#### ***Station 3***

This station will have a 3-person Paramedic Assessment Engine at a cost of \$1.46 million a year. The City and District will share the cost of this station based on a

negotiated formula in the contract, with the District initially paying 25% of the cost. After a temporary Station 4 is completed and utilized by the District, the District will pay 75% (\$1.1 million a year) of the cost of Station 3. After the new permanent Station 4 is completed, the District will continue to pay 75% of the cost of Station 4.

As with Station 1, the District indicated that the cost sharing is intended to reflect the benefit to be derived from the Station, both in the amount of the service projected to be provided in La Habra and existing District areas, and in reduced emergency response times in the District areas.

It is very difficult to assess the cost sharing for Stations 1 and 3. The percentages of cost sharing were negotiated by the District and La Habra to reflect the projected distribution of services and the benefits to be obtained in reduced response time. For example, La Habra's Station 3 currently handles approximately 500 incidents a year, compared to 1,677 incidents by District stations in the adjacent County areas. As a result, District management believes taking over Station 3 can help reduce excessive response times in La Mirada and provide back up to existing District stations.

We cannot assess whether the anticipated distribution of services, reduction in response times and other improvements in services are sufficient to justify the incremental cost to the District. In addition, it is possible that there may be other priority areas in the County that have similar level of service and response time issues, which could be improved by allocation of District resources that will be used under this contract. However, the District believes that the benefits to be derived in the service area in reduced response times, as well as La Habra's sharing the cost of building a new station, outweigh the costs and represent an appropriate use of District resources.

#### ***Station 4***

This is the new station to be built by the City and District. The Station will be staffed with a Paramedic Assessment Engine at a cost of approximately \$1.85 million a year. The District has indicated that, based on the additional resources available under the La Habra contract, they will be able to reallocate existing resources to staff/equip this station. Based on that reallocation, the District maintains that they will not incur any additional cost to staff this station.

#### ***Other Contract Costs***

If the District contracts with La Habra, the District will be paying for the cost of emergency services, including employee salaries, retirement, workers' compensation and other costs, such as services and supplies, station operating costs (e.g., utilities, etc.) and equipment costs. These other costs are addressed in the contract by the 30.9% overhead rate to be charged to La Habra. The contract limits total contract cost increases to the City to 4% a year for the first five years. If the County's costs increase by more than 4%, the higher costs will be charged to the City on a rolling average basis

after the first five years. The County can recover all its excess costs in the event the contract is terminated.

Our review indicates that the contract provisions should be adequate to allow the County to recover its average cost increases from the City. However, if the District's costs increase in La Habra at different rates than other District areas (e.g., higher or lower retirement costs, equipment replacement rates, etc.), the District will only recover a portion of these differences from La Habra. This is similar to the District's agreements with other contract cities.

### **La Mirada Station**

The District has indicated that if they do not contract with La Habra, they will build and operate a new station in La Mirada. The station will be staffed by a 4-person Paramedic Assessment Engine and the District will also set up a new 2-person Paramedic Squad in the Whittier-La Mirada area. The annual cost of these additional resources is \$2.8 million.

As noted earlier, the District has indicated that, if they contract with La Habra, they will be able to reallocate existing staff and equipment. However, the District maintains that, if they do not contract with La Habra, they will not be able to reallocate existing resources and will incur additional costs to staff the new station. Our discussions with District management indicate that, in the past, in some cases, they have been able to allocate existing resources to new stations at no additional cost. However, they believe that it would not be feasible to reallocate resources to staff this Station without the La Habra contract. Given the complexity and amount of judgment needed to allocate emergency resources, we cannot assess the District's position that they can reallocate resources under the La Habra contract, but cannot reallocate resources to serve a new La Mirada station.

### **Station Construction Cost**

As noted earlier, one of the provisions of the La Habra contract is that the City will pay \$2 million, or one-half of the cost of building the station. This reduces the amount the District has to pay to build the station. However, it is unclear how much savings the District will realize compared to the cost of building a new station in La Mirada. If the District builds a new station in La Mirada, the District will have complete ownership of the station and the \$4 million construction cost would be amortized over the life of the structure. However, the La Habra contract allows the City to cancel the contract after 10 years, and only guarantees the District's use of the station for 11.5 years. If the District only has use of the station for 11.5 years, this could reduce the benefit to the District of La Habra's contribution to the cost of building the station.

It is true that La Habra's contribution will reduce the District's initial cash outlay of building the new station. However, the net benefit to the District will depend on the duration of the La Habra contract. District management indicated that they expect the

La Habra contract will continue indefinitely and, therefore, they will continue to benefit from La Habra's contribution to the cost of building the station.

As discussed in this report, the District's analysis showing it is less costly to contract with La Habra is based on a number of significant assumptions regarding resource requirements, service levels, District priorities and other factors that are difficult to evaluate. Subject to the validity of those assumptions, the District's analysis showing that contracting with La Habra results in lower cost than building and operating a station in La Mirada is reasonable. District management believes that their analysis and assumptions are correct and that the contract is less costly than building and operating a new station in La Mirada.

If you have any questions regarding this report, please contact me or have your staff contact Jim Schneiderman at (626) 293-1103.

JTM:MMO:JS:AA

c: David E. Janssen, Chief Administrative Officer  
P. Michael Freeman, Fire Chief, Fire Protection District  
Violet Varona-Lukens, Executive Officer  
Public Information Office  
Audit Committee